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EC'S COMMON AGRICULTURAL POLICY SLOWS FARM EXPORTS

by

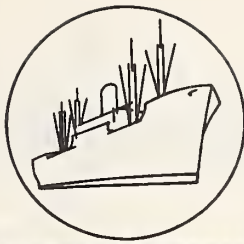
Robert L. Tontz

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SPECIAL in this issue

EC'S COMMON AGRICULTURAL POLICY SLOWS U.S. FARM EXPORT GROWTH

by
Robert L. Tontz 1/

How well has the United States done in the European Community (EC) farm commodity market since the Common Agricultural Policy (CAP) was inaugurated in 1962?

The record reveals that U.S. commercial sales of farm commodities to the EC grew at less than two-thirds of their growth rate to other countries. EC variable import levies held the rise in exports to the EC of affected U.S. commodities to a modest 23 percent, compared with a 94-percent gain for commodities not subject to the levies. EC internal trade (or "intratrade" as used in this article to identify trade among EC members) in farm commodities increased nearly $2\frac{1}{2}$ times, compared with less than half for EC imports from third countries. Intratrade gains for French grain are of particular concern to the United States. Barring policy changes, EC enlargement with its wider application of restrictive policies poses a significant threat to our farm export growth.

Slower Growth for U.S. Commercial Sales

U.S. commercial farm commodity exports to the EC gained at a considerably slower rate than they did to non-EC countries in the past decade. In 1970, U.S. commercial farm exports to the EC were 43 percent above their 1961 value (table 1). 2/ This gain is markedly below the 90-percent growth from 1961 to 1970 for our commercial farm exports to the rest of the world.

A reduced EC grain harvest in 1970 necessitated large imports of U.S. grain in 1971. Our farm sales to the EC shot up to \$1.8 billion in 1971, 65 percent more than in 1961.

EC farm exports to the United States are small compared with U.S. exports to the EC; in 1970, they totaled \$415 million, slightly more than one-fourth of our outgo to them. However, the EC enjoyed a better performance gain in the U.S. market than in other third countries during 1961-70. EC exports of farm commodities gained 83 percent to the United States and 66 percent to other countries, excluding EC intratrade (table 2).

1/ Chief, Trade Statistics and Analysis Branch, Foreign Development and Trade Division. The author gratefully acknowledges the helpful suggestions of Hans G. Hirsch, Agricultural Economist, Dewain H. Rahe, Assistant Chief, of the Branch, and John F. Hudson, Agricultural Economist, Trade Policy Division, Foreign Agricultural Service. The views expressed, however, do not necessarily reflect those of other contributors.

2/ The difference in U.S. export values to the EC and EC import values from the U.S. should be borne in mind when value magnitudes are compared in this article. U.S. agricultural exports are reported by the U.S. Bureau of Census to reflect the value free along side ship (f.a.s.); EC agricultural imports are valued on a cost, insurance, and freight (c.i.f.) basis.

Table 2.--European Community's agricultural exports, calendar years 1961-70 1/

Year	To world, including EC intratrade	To world, excluding EC intratrade	To United States	To world, excluding EC intratrade	To world, excluding EC intratrade and United States
	-- Million dollars --				
1961	3,800	2,054	227	2,054	1,827
1962	4,045	2,094	231	2,094	1,863
1963	4,503	2,283	244	2,283	2,039
1964	4,946	2,455	260	2,455	2,195
1965	5,663	2,633	279	2,633	2,354
1966	5,860	2,623	312	2,623	2,311
1967	6,268	2,723	334	2,723	2,389
1968	7,079	2,855	364	2,855	2,491
1969	8,372	2,983	364	2,983	2,619
1970	9,507	3,455	415	3,455	3,040
	-- Percent --				
1961	100	100	100	100	100
1962	106	102	102	102	102
1963	119	111	107	111	112
1964	130	120	115	120	120
1965	149	128	123	128	129
1966	154	128	137	128	126
1967	165	133	147	133	131
1968	186	139	160	139	136
1969	220	145	160	145	143
1970	250	168	183	168	166

1/ Organization for Economic Cooperation and Development.

Table 3.--U.S. agricultural exports to the EC: Value of variable-levy and nonvariable-levy commodities, calendar year averages 1959-70, annual 1970 and 1971*

Commodity	Average					Annual	
	1959-61	1962-64	1965-67	1968-70	1970	1971	
-- Million dollars --							
Variable-levy commodities ^{1/} :							
Feed grains	208	306	441	295	324	345	
Corn	95	200	329	273	287	300	
Grain sorghums	54	59	71	15	21	20	
Barley	40	38	28	3	6	25	
Oats	19	9	13	4	10	2/	
Wheat, including flour	96	61	91	73	78	60	
Rice	11	14	18	27	21	18	
Poultry	26	36	23	12	11	8	
Other	23	66	26	16	20	17	
Total variable-levy items	364	483	599	423	454	448	
Nonvariable-levy commodities:							
Oilseeds	130	192	283	338	417	532	
Oil cake and meal	19	61	139	198	228	272	
Tobacco	89	105	125	134	124	151	
Fruits, fresh and dried, and nuts	28	32	42	49	54	56	
Variety meats, fresh or frozen ^{3/}	14	23	35	37	42	51	
Corn byproducts, feed ^{4/}	1	6	18	33	34	34	
Cotton, excluding linters	217	142	69	33	19	53	
Tallow ^{3/}	38	29	32	23	33	33	
Hides and skins	22	21	26	21	18	18	
Vegetables and preparations	13	27	18	19	22	23	
Other	126	125	114	90	114	130	
Total nonvariable-levy items	697	763	901	975	1,105	1,353	
Total	1,061	1,246	1,500	1,398	1,559	1,801	

* For a detailed statistical summary of annual U.S. exports of agricultural commodities to the EC 1956 through 1971 see table 7.
^{1/} Grains, poultry, and pork were subject to variable levies beginning on July 30, 1962; rice on Sept. 1, 1964; and beef and dairy products on Nov. 1, 1964.

^{2/} Less than \$0.5 million.

^{3/} Although canned poultry, tallow, and variety meats are subject to variable levies, these cannot exceed the amount of import duties bound in GATT.

^{4/} Mainly corn gluten feed and meal, which are nonvariable-levy commodities; but may contain small quantities of other corn products, subject to variable levies.

The 1970 value of U.S. farm exports to the EC was \$1.6 billion, unadjusted for transshipments, 47 percent higher than the 1959-61 value (table 3) and 59 percent higher adjusted for transshipments (table 4).

EC Variable Levies Restrain U.S. Farm Exports

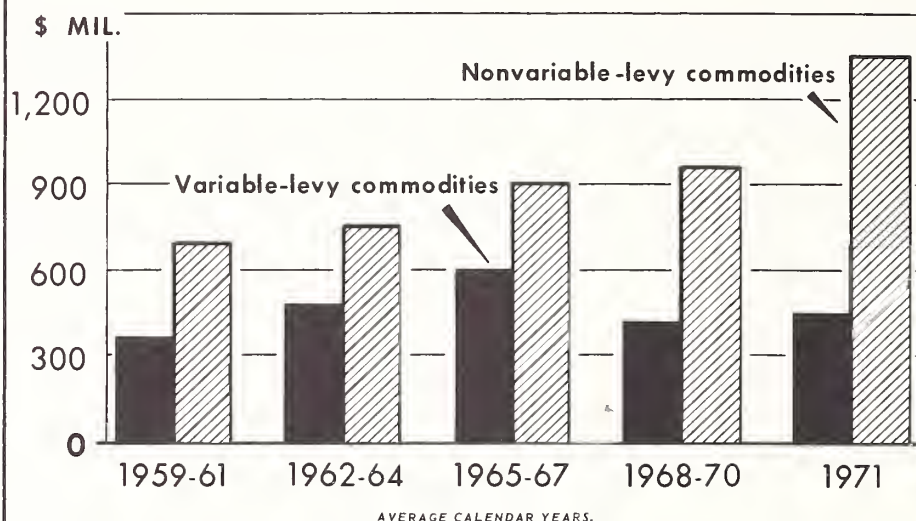
There have been significant changes within both the variable-levy and nonvariable-levy groups. The principal variable-levy commodities exported to the EC from the United States were feed grains, wheat and wheat flour, rice, and poultry. Other commodities that fall under the variable levies include rye, beef, veal, pork, lard for food purposes, dairy products, eggs, and sugar.

The Variable-Levy System.--Variable levies and intervention (support) prices are the principal instruments of the CAP for maintaining high internal EC farm prices. Basically, the variable levy is the difference between the high EC threshold prices and the lower world prices of the principal commodities that the EC both produces and imports. The threshold price for grains is the target price minus freight and handling cost from Rotterdam to Duisburg, Germany.

Year	Unadjusted for transshipments	Adjusted for transshipments	Difference between adjusted and unadjusted
		-- Million dollars --	
1959-61	1,061	1,061	0
1962-64	1,246	1,286	+40
1965-67	1,500	1,514	+14
1968-70	1,398	1,479	+81
1970	1,559	1,689	+130
1971	1,801	NA	NA

1/ Based on data as summarized in Foreign Agricultural Trade of the United States (June, 1971), p. 37.

U.S. AGRICULTURAL EXPORTS TO THE EC, 1959-71



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Figure 1

The difference between the target price and the intervention (support) price represents the preference given to EC products. For example, nondurum wheat, a major U.S. variable-levy export to the EC, had a target price in August 1971 which was 9 percent above its Duisburg intervention price. For corn, another major U.S. export to the EC subject to the variable levy, the treatment is somewhat different. The intervention price is not regionally differentiated but is calculated for the area of largest surplus and is uniformly applied throughout the EC. The target price exceeded the intervention price by 22 percent in August 1971.

The EC producer gets a price somewhere between the intervention and the target price. He would likely get the target price with a strong demand, but get a price nearer the intervention level with a strong supply situation.

Current EC intervention and target prices

Commodity	Intervention price	Target price	Difference
	-- Dollars per metric ton --		Percent
Wheat:			
Nondurum	100.72	109.44	9
Durum	119.85	127.50	6
Corn	79.31	96.89	22
Barley	92.02	100.21	9

A comparison of prices received by U.S. and French wheat producers gives an indication of support measures for EC producers. In 1970/71, the "blended" farm price for U.S. wheat was \$1.86 a bushel. This included a price support of 54 cents a bushel plus \$1.32 a bushel received by growers. In contrast, French wheat producers received a support price (valued at Duisburg) for soft wheat of \$2.54 per bushel -- 36 percent above that for U.S. wheat.

Variable-Levy Commodities.--Feed grains and rice were the two leading variable-levy exports that increased during the past decade.

Exports of feed grains from the United States to the EC showed a 66-percent increase from 1959-61 to 1971. Large increases in U.S. corn exports in recent years were partially offset by decreases in other feed grain exports: Grain sorghums, barley, and oats. The EC has had barley surpluses and increased its volume of barley sales since 1967 by means of export subsidies.

Corn occupies a special place in the feed grain exports to the EC. U.S. exports of corn to the EC in 1971 were triple the 1959-61 average, although they were below the 1965-67 value. In general, availability of adequate and dependable U.S. quantities for export, competitive prices, the sharp expansion of the EC livestock industry, and the lower levy to Italy prior to 1967 all stimulated our sales of corn. Since 1967, the EC grain price unification has been a partial deterrent to these exports.

A short EC grain crop stimulated U.S. exports of corn to the EC in 1970. Although the crop situation was reversed by the record EC harvest of 1971, exports increased, reflecting additional shipments in anticipation of the dock strikes.

U.S. exports of rice to the EC, which totaled \$18 million in 1971, while considerably smaller than for other grains, showed gains in recent years. In 1971, rice exports were 64 percent above their 1959-61 average value. Increased U.S. exports reflected the strong preference for U.S. rice in the northern EC countries and its availability.

Wheat including wheat flour and poultry were the major U.S. variable-levy exports which have declined since 1962.

U.S. wheat and wheat flour exports to the EC, equaling \$60 million in 1971, were below the 1959-61 value. These pre-levy years were characterized at times by low production in Italy. Increased EC output was a major factor accounting for the U.S. decline. High EC internal prices have stimulated EC wheat production, particularly in France. With increased output, the EC became a net exporter of wheat whereas before the introduction of the CAP, they were net importers.

After an initial stimulus to U.S. poultry exports coming from market development efforts in the 1950's, U.S. poultry shipments to the EC continued their momentum until imposition of the variable import levies on poultry. Large exports were made in the first half of 1962 prior to the imposition of the levy in July 1962. With the advent of the transatlantic "chicken war" at that time and further development of EC production, U.S. exports declined. In 1971, U.S. exports of poultry to the EC had fallen to \$8 million, down over two-thirds from their value in 1959-61 and about four-fifths below their 1962-64 average.

Nonvariable-Levy Commodities.--Commodities not subject to variable levies represented about three-fourths of the U.S. total of \$1.8 billion worth of U.S. agricultural products sent to the EC in 1971. Leading nonvariable-levy commodities included oilseeds, oil cake and meal, tobacco, fruits and nuts, variety meats, corn byproducts, cotton, tallow, vegetables, and hides and skins.

In sharp contrast to the mixed trends in U.S. agricultural exports to the EC subject to variable levies, most U.S. commodities not subject to the variable levies (although some are subject to fixed tariffs and other forms of protection) enjoyed a rapid rise with the exception of cotton, tallow, and hides and skins.

Oilseeds and oil cake and meal and tobacco made up about 71 percent of the value of U.S. nonvariable-levy exports to the EC in 1971.

U.S. commodities not subject to the variable levies that accounted for most of the increase in U.S. agricultural exports to the EC were oilseeds, principally soybeans, oil cake and meal, and tobacco. Other commodities that showed increases were fruits, vegetables and nuts, variety meats, and corn byproducts.

About half of the protein import requirement in prepared feeds of the EC is now supplied by the United States in the form of soybeans or soybean meal. For protein, alternate sources have remained relatively tight.

The EC subsidizes its domestic oilseeds (rapeseed, sunflower seed, and cottonseed) and this is becoming of increasing concern to the United States, because of rising EC output of these products. The EC has obligations in the GATT to keep oilseeds and most oilseed products free of duties and restrictions.

U.S. exports of tobacco to the EC (an important export item on which there are fixed tariffs), increased 70 percent by 1971 over the pre-levy years 1959-61. The increase resulted from a rising EC demand for U.S. qualities and U.N. trade sanctions against Rhodesia which benefited U.S. exports. During 1970, the EC expanded its CAP to tobacco. The tobacco policy raised support prices and provided for buyer's premiums -- discounts for the purchase of domestically grown leaf.

Increased EC imports of fruits, vegetables, and nuts from the United States over the past decade reflected a rising demand from an expanding population for these commodities along with adequate high-quality U.S. supplies to fulfill needs. Among other factors, preferential arrangements of the EC may adversely affect U.S. exports in the future.

The EC countries have traditionally used large quantities of variety meats. With increasing U.S. supplies available at competitive prices, U.S. exports have trended upward.

Substantial growth in the livestock industry in Western Europe plus adoption of specialized livestock production and levies on grain imports in the EC have continued to stimulate U.S. exports of corn byproducts used in the mixed feed industry. 3/

In contrast to increased U.S. sales to the EC of most commodities not subject to variable levies, a significant decline has been taking place for U.S. exports of cotton. The decline resulted from an increase in the use of manmade fibers by EC cloth manufacturers, a reduction in U.S. cotton production, and an increase in other free world production.

Tallow also represented an important U.S. commodity not subject to the variable levies; however, it suffered only a small export decrease in the past decade. Totaling \$33 million in 1971, U.S. tallow exports in the latter period were 13 percent less than their value in 1959-61.

3/ Corn gluten meal, the principal byproduct was not subject to EC variable import levies through 1971.

U.S. exports of hides and skins have shown mixed trends in the EC market. Exports in 1971 were 18 percent below the 1959-61 average. Despite the increased use of synthetic products, continued strength in EC demand for leather has contributed to partially maintaining U.S. exports.

EC Intratrade Soars, Imports from Third Countries Gain Less

How has the United States done in the EC market compared with other major suppliers, including the EC members themselves?

The EC market experienced a dramatic increase in imports of agricultural commodities during the decade ended in 1970. In that year imports totaled \$16.7 billion, nearly double the 1961 value. Over half of the gain was accounted for by EC intratrade.

Imports from the EC associates Greece and Turkey also more than doubled during the past decade; however, the magnitude of the gain was relatively small compared with the significant gain in EC intratrade.

Variable import levies held imports from third countries in check and protected high EC farm prices from outside competition, facilitating purchases of increased farm commodity supplies produced within the EC.

EC imports of U.S. agricultural commodities totaled \$1.8 billion in 1970, the second highest for 1961-70. The peak year of 1966 culminated a trend which had started in 1961, largely because of growing imports of feed grains and oilseeds and products to meet the needs of an expanding livestock industry. The 1970 EC imports from the United States were 43 percent more than in the pre-levy year 1961, with increases in feed grains, oilseeds and products, tobacco, variety meats, corn byproducts, and nuts more than offsetting declines in poultry, cotton, hides and skins, and other commodities.

EC imports of farm commodities from other third countries also rose, showing nearly a 50-percent increase from 1961 to 1970; however, the rate of increase of EC imports from these countries and the United States was well below the 246-percent gain in EC intratrade (fig. 2).

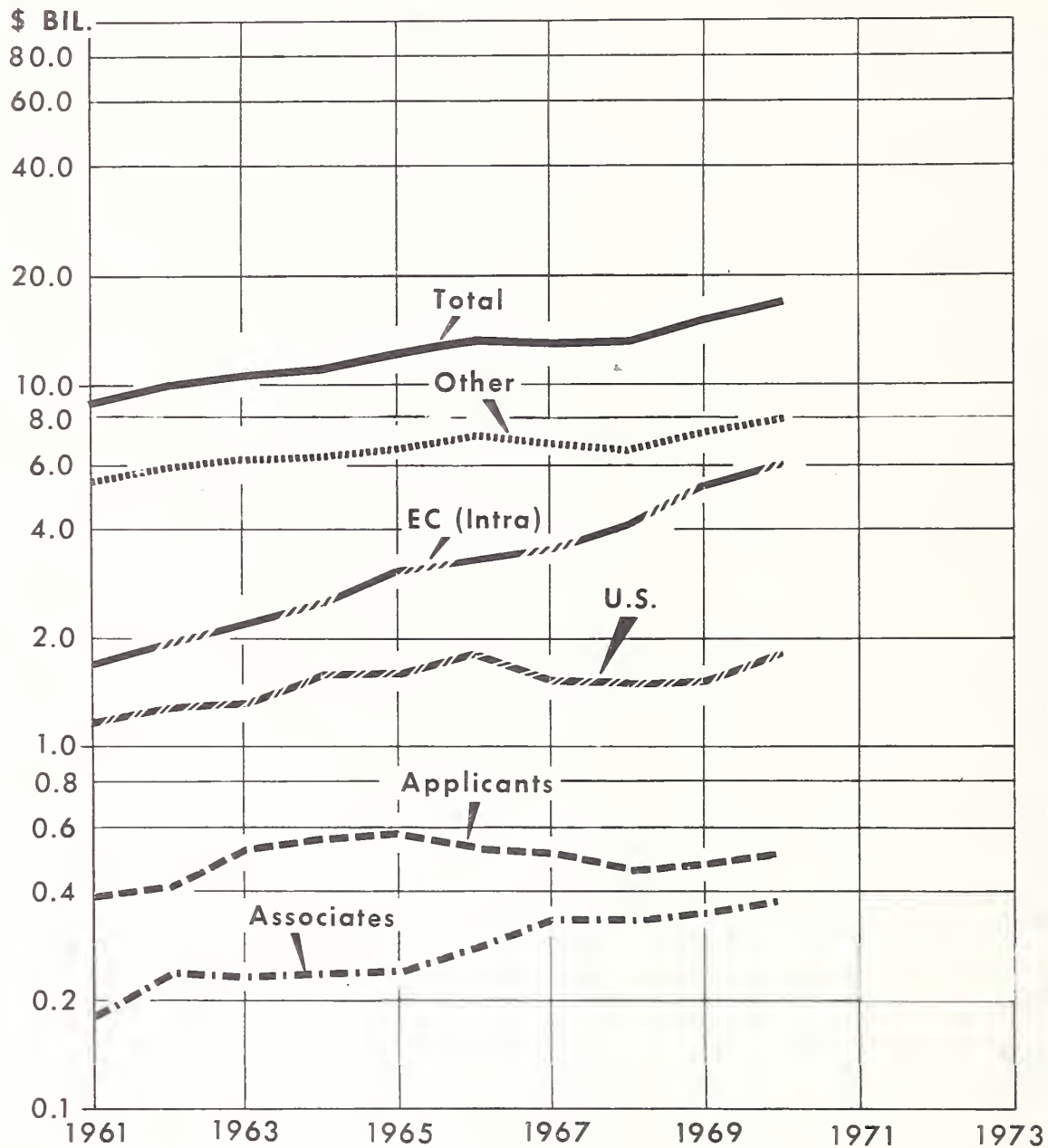
Even though EC farm imports from the United States in 1970 approached the previous high in 1966, the U.S. share of this market declined from 14 percent of EC farm imports in 1961 to 11 percent in 1970. Other third countries suffered a decline in their share from 60 to 48 percent. The small share of the EC applicants -- the United Kingdom, Denmark, Ireland, and Norway -- grew smaller, declining from 4 percent in 1961 to 3 percent in 1970. The EC, however, increased imports of farm commodities from members to a record \$6.1 billion in 1970, raising the EC share of its total farm import market from 20 percent in 1961 to 36 percent in 1970 (table 5).

Variable-Levy Commodities.--How did the performance of EC 4/ imports of leading U.S. variable-levy commodities -- corn, wheat and wheat flour, rice, and poultry -- compare with that of U.S. competitors, including intratrade from EC members?

Grain trade among EC members has been free of restriction since adoption of the unified EC grain policy in 1967. This policy eliminated intratrade levies that had existed since 1962 and stimulated EC intratrade in grains. EC grain trade with third countries has been affected by the use of a uniform protective levy to restrict imports and a uniform subsidy to facilitate exports.

4/ Variable levies apply only to imports from third countries.

EUROPEAN COMMUNITY: AGRICULTURAL IMPORTS BY SOURCE



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Figure 2

Table 5.--Agricultural imports: European Community classified by source, calendar years 1961-70 1/

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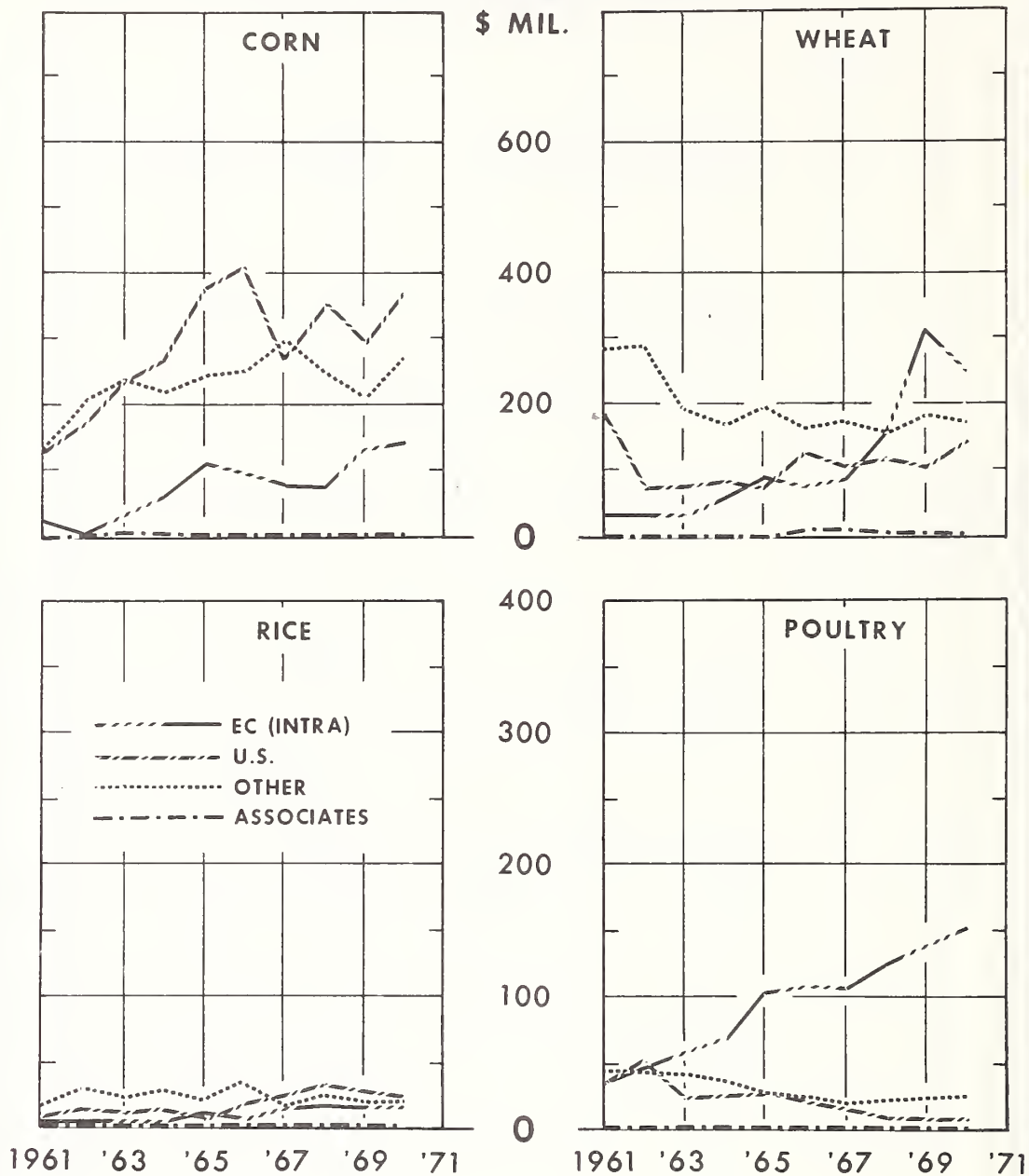
1/ Sources: Organization for Economic Cooperation and Development and the United Nations. Data for 1970 for the Netherlands are from their national statistics.

2/ Includes United Kingdom, Denmark, Ireland, and Norway.

3/ European Community plus four applicants.

4/ Greece and Turkey.

EUROPEAN COMMUNITY: SOURCES OF SELECTED VARIABLE-LEVY IMPORTS*



* LEVIES APPLY ONLY TO EC IMPORTS FROM THIRD COUNTRIES.

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Figure 3

The gain in EC imports of U.S. corn in the past decade was accompanied by a pronounced increase in EC corn intratrade (fig. 3). Other third-country suppliers, particularly Argentina, to a lesser extent Brazil, and on occasion South Africa, Romania, and Mexico, contributed to an accelerating trend until 1967. Since then, their EC sales have been mixed but generally have declined, largely because of expanding EC corn output. EC corn production expanded from approximately 6 million metric tons annually in the early 1960's to over 10 million in the early 1970's.

EC imports of wheat from the United States after an initial decline to 1962, leveled off through 1965, and then trended upward. After sharp declines for the United States and other third countries such as Canada, Australia, and the USSR earlier in the decade, EC imports from the United States advanced moderately while those from other third countries declined slowly.

EC intratrade in wheat climbed slowly in the early 1960's from relatively small amounts to nearly \$250 million in 1970. A still higher value was achieved in 1969 because of speculation as a consequence of exchange rate adjustments.

EC imports of U.S. rice more than doubled during the past decade reaching nearly \$25 million in 1970, but accounted for less than 2 percent of U.S. farm imports by the EC in 1970.

EC imports of rice from other third countries, including Egypt, Thailand, and Mainland China, showed mixed trends during the 1960's. Rice imports rose as much as 60 percent one year (1966) to offset shortages in EC crop supplies. By the end of the decade, EC imports from other third countries were only 10 percent above their total in 1961.

EC intratrade in rice was a relatively small \$4.3 million in 1961. However, this trade expanded over 3-fold during the decade, exceeding the expansion rate for both the United States and other third-country suppliers. Total intratrade in 1970 of \$17.5 million accounted for over a fourth of EC rice imports, more than double the share in 1961.

EC imports of fresh, chilled, and frozen poultry from the United States suffered a severe decline during the past decade. EC poultry producers adopted modern integrated methods -- an adaptation which was speeded by EC import levies. EC imports equaled \$36 million in 1961 but rose to \$52 million a year later, reflecting EC stockpiling before the variable import levy became effective on July 30 of that year. After 1962, a downward trend prevailed, and by 1970 EC imports of U.S. poultry declined to less than \$9 million.

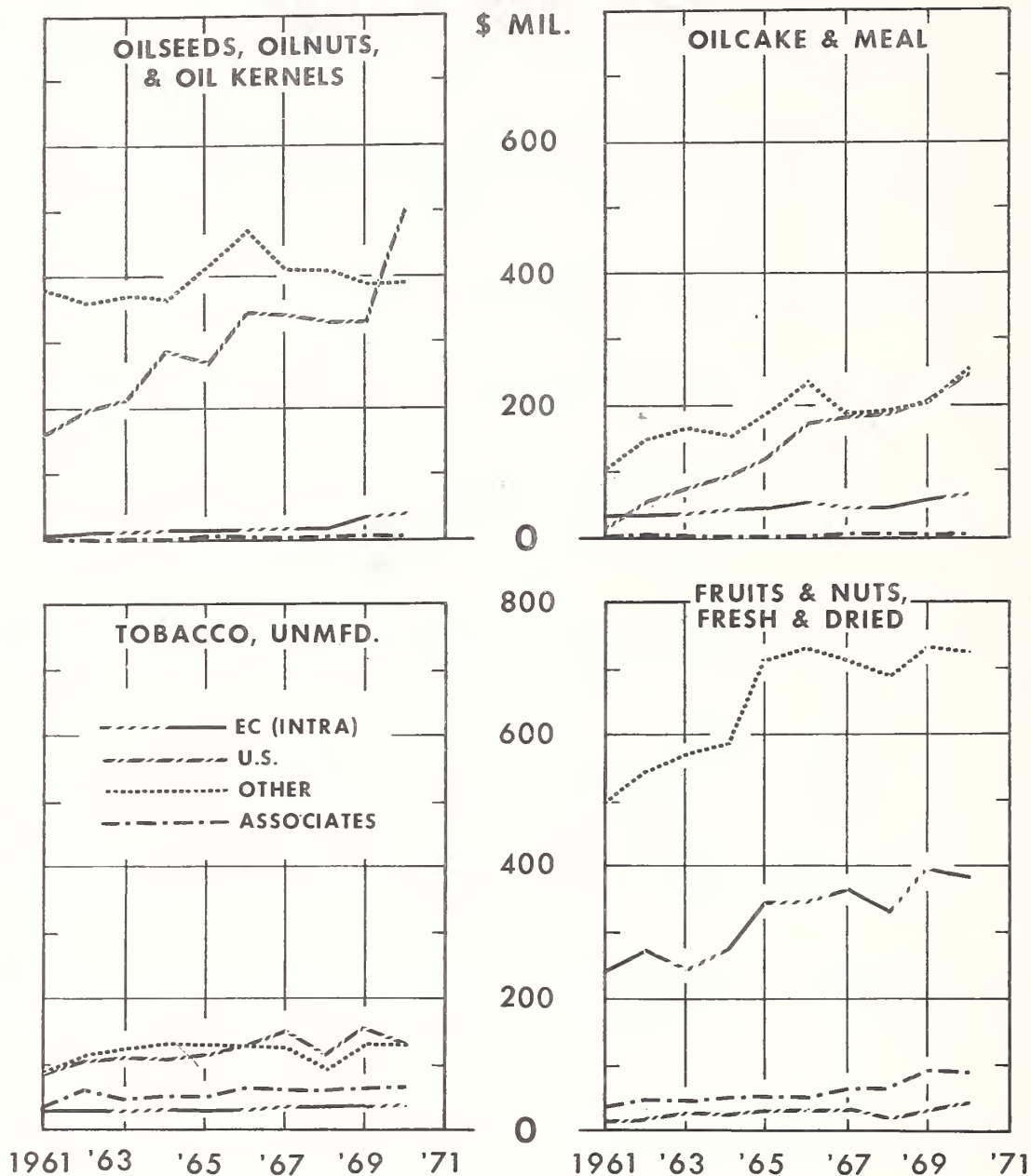
Other third-country poultry suppliers, mainly Denmark, also lost business. In 1970, EC imports from third-country suppliers totaled \$26.4 million, down 41 percent from their 1961 value. Quantity decreased 56 percent, reflecting higher unit values from nonapplicant sources.

A 3-fold increase boosted EC poultry intratrade during the past decade to a record \$151 million in 1970 (fig. 3).

Nonvariable-Levy Commodities.--Although most EC imports of nonvariable-levy commodities from the United States increased over the past decade, imports of oilseeds and oil cake and meal evidenced the biggest absolute gains. Smaller increases were registered for tobacco and fruits and nuts (fig. 4).

EC intratrade of oilseeds, oilnuts, and oil kernels has been relatively small compared with imports from other sources. EC imports from the United States in 1970 exceeded \$500 million, triple the level of 1961, and represented 40 percent of the total value of EC imports of U.S. nonvariable-levy commodities. EC imports from other third countries, after peaking in 1966 at \$468 million, leveled off by 1970 at slightly over the 1961 value of \$382 million.

EUROPEAN COMMUNITY: SOURCES OF SELECTED NONVARIABLE-LEVY IMPORTS



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Figure 4

For tobacco, third-ranked among nonvariable-levy commodities imported by the EC, the shares of the United States and other third countries were similar, rising moderately since 1961. EC intratrade, held steady while imports from EC associates, Turkey and Greece, evidenced a moderate uptrend. Increased competition from other third countries, substitution in manufacturing of tobacco products along with the CAP regulation may adversely affect future EC imports from the United States.

EC fresh and dried fruit and nut imports from the United States were fourth in importance among the nonvariable group. These imports by the EC from the United States equaled \$42 million in 1970, up significantly from 1961, but have been greatly out-paced by larger magnitude gains for EC intratrade and imports from other third countries.

EC Intratrade Gains: French Grain and Dutch Poultry

All EC members showed a pronounced gain in EC intratrade during the past decade, but the Netherlands and France gained the most. Each sold over \$1.8 billion worth of agricultural commodities to other EC members during 1970 (fig. 5).

Variable-Levy Commodities.--How did EC trade between member countries fare for corn, wheat, rice, and poultry? These four commodities are of particular interest because they are the leading U.S. agricultural export commodities subject to variable levies against third countries.

Intratrade in corn and wheat was clearly dominated by France (fig. 6). Corn imports from France generally trended upward during the decade. The rise in imports from Italy, reflecting transshipments to Germany, peaked in 1965 and then declined significantly. France increased corn output with both expanded acreage and higher yields. The French gain in corn production was associated with a substantial rise in French corn exports to other EC members. In 1970, French shipments to other EC countries totaled over \$128 million compared with approximately \$22 million in 1961.

EC wheat intratrade increased much more than corn and was dominated even more strongly by France. French wheat production increased significantly in recent years. Spurred by high price supports, protected from third-country competition, and aided by export subsidies "restitutions", French farmers increased wheat production largely by increasing yields.

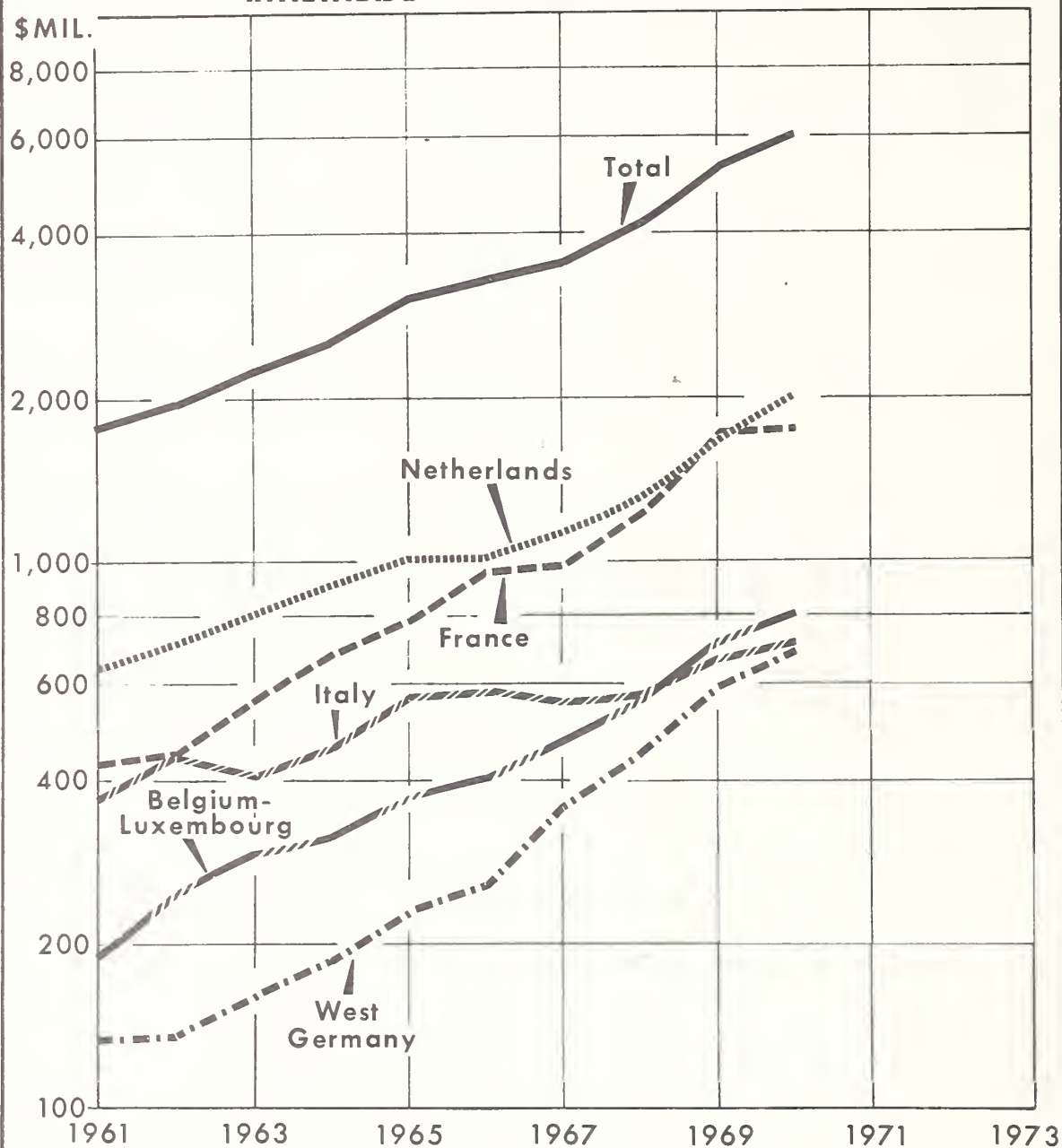
The EC increased its intratrade in rice in the past decade 3-fold. The increase came about almost entirely from increased Italian exports, since French exports showed only a nominal gain. Expansion of Italian rice production in recent years resulted mainly from an increase in acreage.

Poultry intratrade increased significantly in the EC during the 1960's. The increase almost entirely reflected a sharp gain in EC imports (mainly German) from the Netherlands. Besides benefiting from protection provided by variable levies, the Dutch also have been able to sell surplus production outside the EC with the aid of subsidies. French exports of poultry to EC members -- considerably below those of the Netherlands -- showed a declining trend since 1965.

Nonvariable-Levy Commodities.--Oilseeds, oilnuts, oil kernels, oil cake and meal, tobacco, and fruits and nuts were the four leading groups of U.S. exports to the EC not subject to variable import levies.

Community intratrade in fruits and nuts played the biggest role among the 4 commodities (fig. 7), climbing to \$383 million in 1970 from \$224 million a decade earlier. The increase represented mainly gains for Italy and France. Increased availability at competitive prices was a major factor for the gain by both countries.

EUROPEAN COMMUNITY: AGRICULTURAL IMPORTS INTRATRADE BY MEMBER COUNTRY

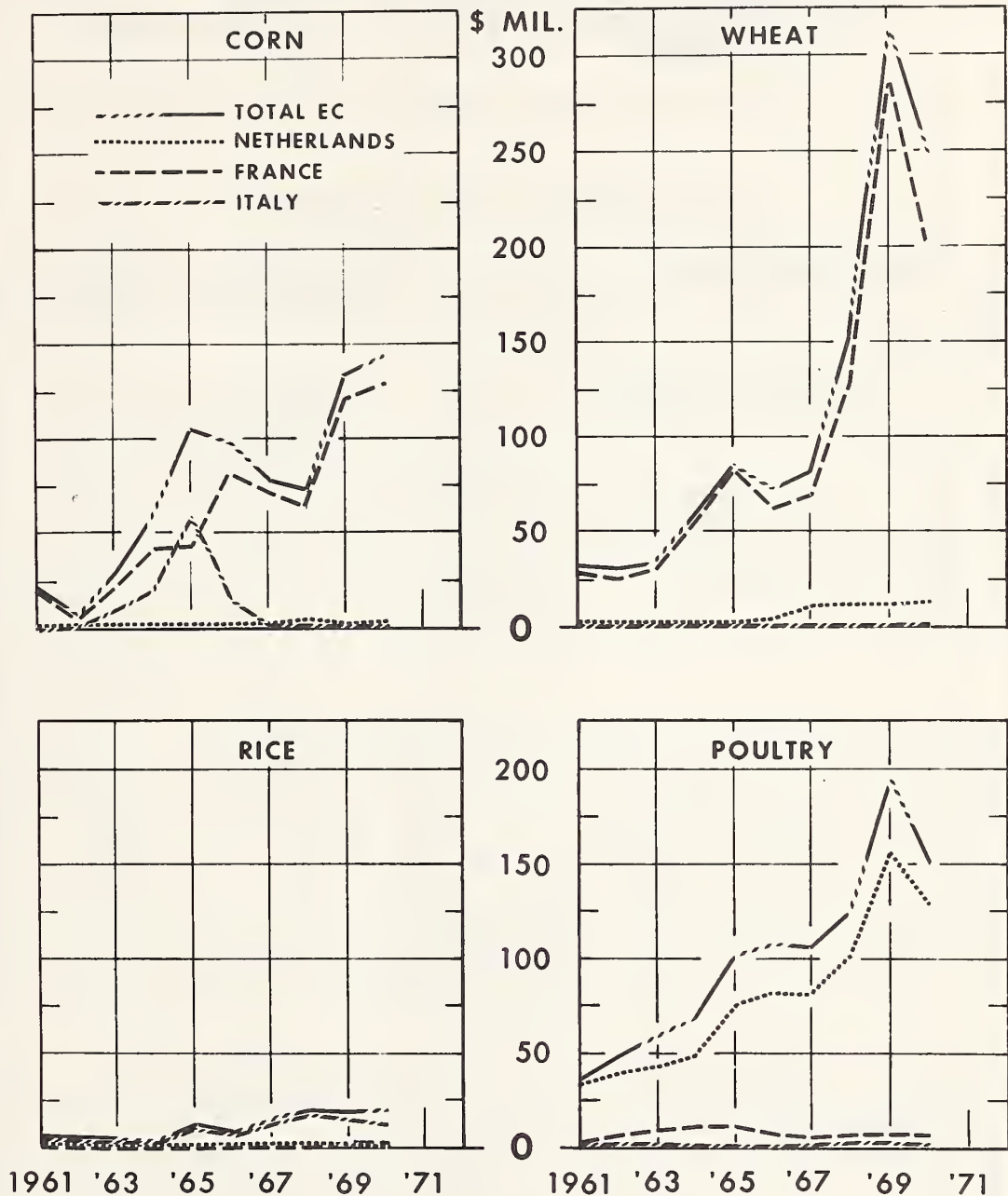


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Figure 5

EUROPEAN COMMUNITY: INTRATRADER BY MEMBER COUNTRY OF ORIGIN OF SELECTED COMMODITIES *



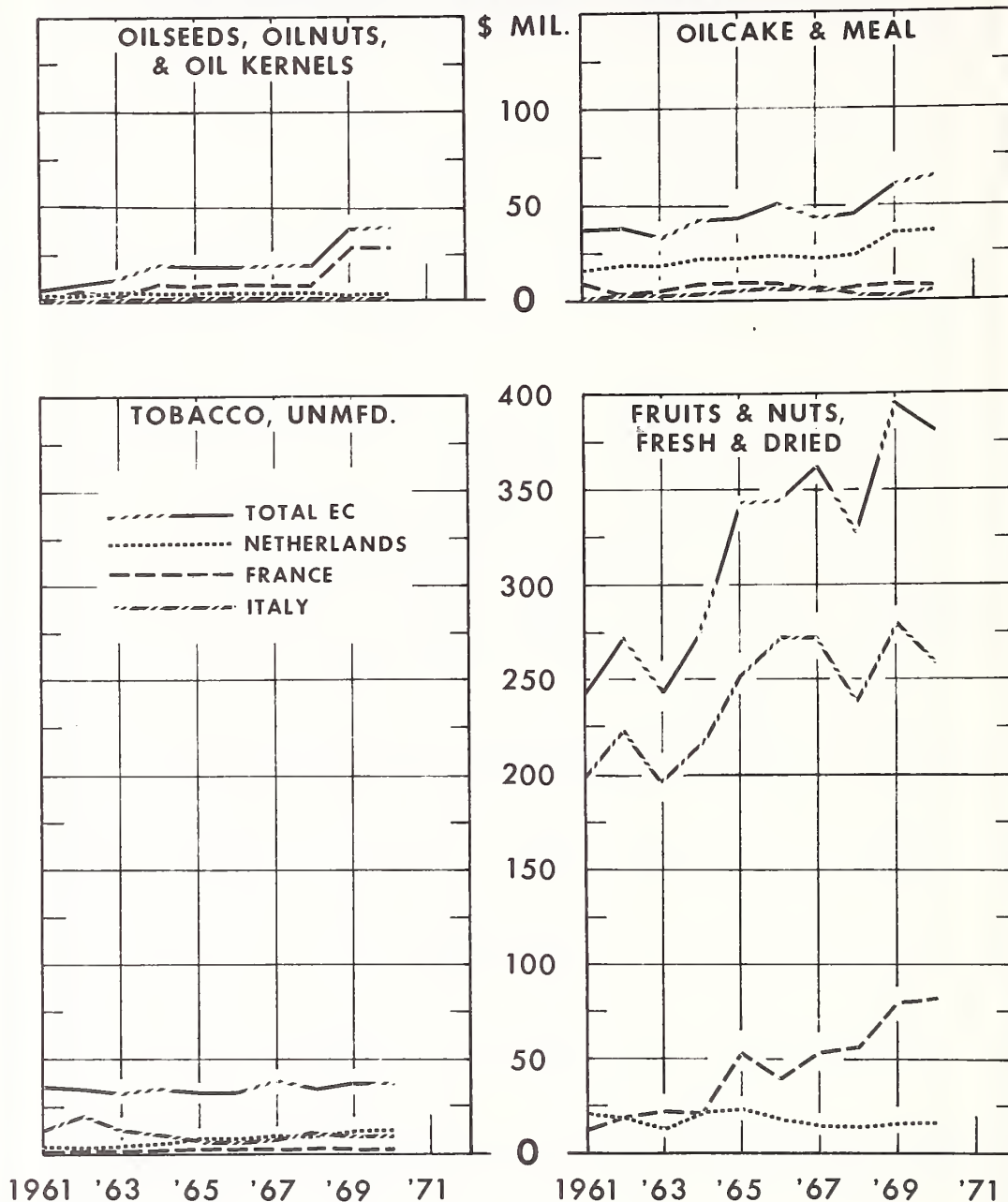
* LEVIES APPLY ONLY TO IMPORTS FROM THIRD COUNTRIES.

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Figure 6

EUROPEAN COMMUNITY: INTRATRADE BY MEMBER COUNTRY OF ORIGIN OF SELECTED COMMODITIES



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Figure 7

Increased EC intratrade of oil cake and meal largely reflected increased imports from the Netherlands. Imports from France and Italy, while relatively small, held steady. Larger supplies from the Netherlands came about from increased availability of oil cake and meal as a byproduct of soybean crushing. France accounted for most of the gain in EC intratrade in the past 5 years for oilseeds, oilnuts, and oil kernels.

EC intratrade for tobacco increased slightly over the past decade. Intratrade in tobacco was approximately \$37 million in 1970.

EC Enlargement Poses U.S. Export Threat

Changes in the EC, our largest market for agricultural exports, have had a significant impact on a number of U.S. agricultural exports over the past decade. The impact will grow as the EC is enlarged to include the United Kingdom, Ireland, Denmark, and Norway. These countries have joined the EC; full membership will be achieved by January 1, 1973, when they have ratified the necessary additional documents relating to accession.

An enlarged EC will put a squeeze on U.S. agricultural exports. This could come about principally because incorporation of the four new members into the existing EC restricted trade area will reduce competition from the U.S. and other third-country suppliers. This could cause increased production within the enlarged EC, in turn increasing competition with U.S. exports for outside markets. Also, U.S. competition could increase with countries whose products are diverted to other markets from the larger, protected EC market. Finally, the tendency for the EC to shift away from the most-favored-nation concept is a cause for further concern. Under this policy, trade preferences granted to any one country are granted to most others. The shift has been toward special preferential trade agreements with numerous individual non-EC countries throughout Europe and Africa.

An enlarged EC would become the world's leading commercial trading entity. Because of wider application of existing restrictive trade policies in an enlarged EC, future trade magnitudes could be expected to vary appreciably from current levels and those that have existed since the inception of the CAP. The United Kingdom has already inaugurated changes in its agricultural policy to align its agricultural program with the CAP. U.S. exports to the United Kingdom, the principal importer of U.S. agricultural products of the applicants, showed a slight decline since 1959-61. In 1970, they equaled \$455 million, 4 percent less than the 1959-61 average. While the United Kingdom's agricultural policy and programs encouraged expansion in agricultural production during the 1960's, the depressed level of economic growth was probably the main reason for the decline in agricultural imports from the United States.

The United Kingdom's imports of farm products from other sources also stagnated during the 1960's. Total agricultural imports of the United Kingdom were \$5.8 billion in 1970 compared with \$5.6 billion in 1960.

If the rate of economic growth should increase from the depressed level of 1960's, some U.S. agricultural exports should benefit. Commodities not subject to the variable levies, especially soybeans and soybean meal, would probably gain most from a higher U.K. rate of growth. U.S. tobacco exports, however, would likely suffer an adverse effect if the U.K. accepts the E C restrictive trade policy.

While it is extremely difficult to quantify the trade dimensions of an enlarged EC, imports of farm commodities by the EC over the past decade from intratrade, EC associates, the four EC applicants, and other third-country suppliers including the United States give some indication of the magnitudes involved.

In 1970, agricultural imports of the EC and the four EC member applicants totaled \$23.6 billion. Of this total, the U.S. share was \$2.5 billion or 10 percent. In 1961,

the U.S. share was 13 percent. The EC imported \$12.2 billion or 52 percent from other third-country suppliers in 1970, compared with 63-percent a decade earlier. Meanwhile, the share of imports supplied by intratrade within the "enlarged EC" was \$8.5 billion or 36 percent in 1970, compared with 23 percent in 1961 (table 6).

A study on the implications of the expansion of the European Community provides some general projections of future trade assuming a continuation of the CAP much as it has been in recent years. 5/

The projections show diminishing export opportunities for third-country suppliers of grain, dairy, and meat products. The decline in export opportunities will come about to a large extent from internal diversion of increased EC output and a greater increase in EC output than in utilization of these products.

EC imports of hard wheat for mixing purposes will continue; however, for soft wheat internal transfers from France are expected to be sufficient to meet the U.K. deficit so that little if any will be imported from nonmember sources.

Imports by the EC of feed grains, particularly corn, will likely continue as deficits are expected for some members.

For dairy products, current EC surpluses along with Danish and Irish production are sufficient to displace existing U.K. imports from Commonwealth countries.

Some EC export surpluses are expected for pork, poultry, and eggs. For beef, a reduced EC market may exist for third-country suppliers if the high projected expansion of Irish beef production takes place.

Conclusions

On the basis of actual performance since the beginning of the CAP in 1962, the CAP has held back growth of U.S. and other third countries' farm exports to the EC, especially for commodities subject to variable import levies. Application of variable levies to imports from the United States and other third countries has tended to relegate these sources to residual suppliers since they are not permitted to compete in price with EC's products.

The record shows that U.S. and other third countries' agricultural exports have gained in the EC market despite the inauguration of the CAP and the imposition of the trade impeding variable import levies in July 1962.

The major point, however, is that EC members have been the principal beneficiaries of agricultural trade expansion to the detriment of third-country suppliers. While a customs union could be expected to favor its own members more than nonmembers, of significance is the extent of the favoritism. Clearly, its extent is large as judged by the farm trade performance to date. In 1970, EC members bought \$6.1 billion worth of farm commodities from each other. This value represented a gain of nearly two and one-half times more than their purchases from each other (intratrade) in 1961, the year before the variable levies were imposed. In contrast to the high rate of gain for EC intratrade, EC imports of farm commodities from 1961 to 1970 showed a 43-percent increase from the United States and a 50-percent rise from third countries excluding the United States.

5/ John Ferris, "Implications of Expansion of the European Community," talk at 50th Annual Agricultural Outlook Conference, Washington, D.C., February 23, 1972.

Table 6.--Agricultural imports: Enlarged European Community, classified by source
calendar years 1961-70 1/

Year	Intratrade of :		European	:	United	Other	Total
	Enlarged	European	Community	:	States		
	Community	2/	:	:	:	:	:
			3/	:	:	:	:
-- Million dollars --							
1961	3,453		236		1,880	9,407	14,976
1962	3,697		314		1,932	10,101	16,044
1963	4,178		306		1,958	10,696	17,138
1964	4,665		309		2,262	11,074	18,310
1965	5,190		325		2,291	11,036	18,842
1966	5,454		362		2,541	11,397	19,754
1967	5,783		402		2,196	10,860	19,241
1968	6,348		405		2,162	10,497	19,412
1969	7,561		409		2,065	11,534	21,569
1970	8,474		441		2,462	12,241	23,618
-- Percent --							
1961	23.1		1.6		12.5	62.8	100.0
1962	23.0		2.0		12.0	63.0	100.0
1963	24.4		1.8		11.4	62.4	100.0
1964	25.5		1.7		12.3	60.5	100.0
1965	27.5		1.7		12.2	58.6	100.0
1966	27.6		1.8		12.9	57.7	100.0
1967	30.1		2.1		11.4	56.4	100.0
1968	32.7		2.1		11.1	54.1	100.0
1969	35.0		1.9		9.6	53.5	100.0
1970	35.9		1.9		10.4	51.8	100.0

It may be enquired as to what EC imports of farm commodities might have been had the EC not developed. Even though this question cannot be answered definitively, because of the difficulty of designing and applying measuring standards to analyze such a situation, possibly a clue can be obtained from extrapolating trade trends that existed in the years just prior to the imposition of the EC variable levies.

These extrapolations based on the 8-year trade record 1954-1961 show that the gain in EC trade in farm commodities from 1961 to 1970 would not have been as favorable to the EC member countries as it actually was and EC imports from the United States would have been more favorable to the United States than they actually were. The extrapolated EC import gain from member countries was only 122 percent of the 1961 value compared with 238 percent for actual trade. Extrapolated EC imports from the United States showed a gain of 150 percent of their 1961 value compared with 50 percent for actual trade.

Recent currency realignments will not necessarily help the U.S. farm export performance in the EC market. Such realignments resulting from the devaluation of the U.S. dollar would give U.S. farm commodities a greater price competitiveness with domestically produced EC products; however, under the variable-levy system, levies may increase to offset any lower prices resulting from currency realignments.

Although the problem of export expansion confronting the United States is global, an important part of the global problem is tied up with our getting access to the EC market.

Implementing U.S. trade policy for improved market access will require continued adherence to GATT rules to prevent use of trade restrictions contrary to the GATT, maintenance of trade concessions achieved to date, and prevention of surpluses produced abroad from being diverted to the U.S. market and to other markets which normally import from the United States. In addition, modification of the EC's highly protective price policy along with reductions for fixed-tariff commodities are needed. Also, less reliance by the EC on price mechanisms to provide income to farmers along with less stress on export subsidies would assure the United States a better opportunity to compete effectively in the EC market. An encouraging recent development that could improve U.S. access is the agreement by the United States and the Community to participate in major negotiations in 1973 for further liberalization of trade.

Table 7.--U.S. exports to the EC: Value by commodity, calendar years 1956-71

Commodity	1956	1957	1958	1959	1960	1961	1962	1963
-- 1,000 dollars --								
Variable-levy commodities 1/:								
Feed grains	158,997	105,916	157,541	241,295	197,146	186,046	317,082	275,256
Corn	56,530	64,056	48,105	89,424	83,309	11,180	166,464	196,165
Grain sorghums	35,227	13,731	37,109	60,337	53,545	48,141	63,308	51,087
Barley	47,227	17,990	60,966	65,593	35,931	17,271	69,124	22,976
Oats	20,013	10,139	11,361	25,941	24,361	7,454	18,186	5,028
Rice	2,992	1,954	2,953	10,773	6,894	14,795	14,247	13,399
Rye grain	10,324	6,203	2,416	5,714	3,695	5,739	18,709	13,700
Wheat grain	177,106	91,479	51,474	44,657	46,322	173,011	50,603	63,365
Wheat flour	7,079	7,218	11,218	8,467	7,253	6,862	5,553	3,200
Beef and veal, excluding variety meats ...	82	44	40	18	38	49	64	163
Pork, excluding variety meats	2,876	1,725	482	744	418	561	341	2,061
Lard 2/	9,869	2,798	1,887	5,084	2,326	3,401	2,134	2,543
Dairy products	25,274	11,438	2,502	10,162	2,997	2,084	3,603	22,551
Poultry and eggs	2,577	2,589	3,633	19,235	28,551	45,835	53,479	30,613
Live poultry	10	26	62	212	231	611	790	1,388
Broilers and fryers	---	---	1,554	7,852	12,437	24,733	30,701	10,698
Stewing chickens	---	---	660	3,247	5,242	8,642	8,347	6,092
Turkeys	---	---	744	2,184	5,275	6,521	9,624	8,766
Other fresh poultry	1,177	1,797	226	343	717	835	574	338
Eggs	1,390	766	387	5,397	4,649	4,493	3,443	3,331
Other	4,816	1,825	2,301	3,651	3,473	4,154	13,529	19,051
Total variable-levy items	401,992	233,189	236,447	349,800	299,113	442,537	479,344	445,902
Nonvariable-levy commodities:								
Canned poultry 3/	1	25	190	1,733	1,143	1,974	1,080	1,997
Cotton, excluding lintners	218,273	358,275	197,359	104,468	312,891	232,897	105,973	131,557
Fruits and preparations	57,280	59,634	59,762	44,414	45,880	56,751	66,732	64,539
Fresh fruits	29,682	24,768	22,407	15,511	12,389	20,669	16,379	22,357
Citrus	29,017	21,379	16,764	13,763	11,000	19,028	14,572	21,785
Oranges and tangerines	21,528	13,604	4,193	7,846	3,811	8,364	6,557	7,309
Lemons and limes	5,801	5,815	10,533	4,013	5,592	7,464	4,420	11,473
Grapefruits	1,688	1,960	2,038	1,904	1,597	3,200	3,595	3,003
Other	---	---	---	---	---	---	---	---
Apples	590	1,715	5,398	657	1,251	925	1,324	128
Grapes	9	29	13	26	22	30	6	10
Other	66	1,645	232	1,065	116	686	477	434
Dried fruits	9,171	10,180	9,874	6,623	9,754	7,744	8,425	8,245
Raisins	2,736	1,227	1,207	1,318	2,085	1,679	1,143	1,933
Prunes	5,071	5,322	5,595	3,594	6,774	4,761	5,874	5,244
Other	1,364	3,631	3,072	1,711	895	1,304	1,408	1,068
Fruit juices	5,337	6,285	9,873	4,183	5,874	7,424	8,914	6,583
Orange	3,042	3,310	6,717	1,316	3,500	4,623	4,803	3,500
Grapefruit	1,007	1,281	875	968	594	1,090	1,827	1,491
Other	1,288	1,694	2,281	1,899	1,780	1,711	2,284	1,592
Canned fruits 4/	12,905	18,242	17,136	17,631	17,386	19,754	31,605	26,142
Peaches	2,319	5,454	5,621	6,391	7,739	9,356	16,030	13,213
Fruit cocktail	1,432	2,034	2,472	2,484	2,585	2,992	4,469	5,358
Pineapples	8,217	8,662	7,822	7,704	5,889	5,290	9,004	6,110
Other	937	2,092	1,221	1,052	1,173	2,116	2,102	1,461
Other fruits	185	159	472	466	477	1,160	1,409	1,212
Vegetables and preparations	9,226	8,191	9,435	13,529	12,431	13,337	24,611	33,048
Pulse	2,185	879	1,487	6,552	3,545	3,251	7,487	14,993
Oried beans	1,051	551	345	3,272	843	776	2,856	9,928
Oried peas	1,134	328	1,142	3,280	2,702	2,475	4,631	5,065
Fresh vegetables	624	169	9	20	13	360	1,171	2,520
Canned vegetables	4,254	4,222	6,124	4,376	6,247	6,400	10,009	11,392
Asparagus	2,139	3,290	5,431	2,121	5,225	5,394	8,537	9,407
Other	2,115	932	693	2,255	1,022	1,006	1,472	1,985
Other vegetables and preparations	2,163	2,921	1,815	2,581	2,626	3,326	5,944	4,143
Hides and skins	14,326	25,254	18,721	20,114	24,030	21,987	20,560	16,426
Cattle hides	6,483	16,713	11,449	13,592	18,585	15,144	14,122	11,187
Calf and kip skins	6,706	6,855	6,171	5,615	3,925	5,093	3,731	1,941
Other	1,137	1,686	1,101	907	1,520	1,750	2,707	3,298
Oilseeds and products	159,409	183,393	95,860	183,764	198,420	178,879	233,179	249,365
Oil cake and meal	9,793	5,988	7,782	22,305	18,604	16,274	46,020	61,520
Soybean	4,242	4,689	6,388	15,155	14,877	14,980	41,963	58,117
Other	5,551	1,299	1,394	7,150	3,727	1,294	4,057	3,403
Oilseeds	95,647	93,364	71,012	119,199	135,464	133,946	173,998	169,440
Soybeans	69,385	76,483	62,070	98,452	124,066	121,543	162,320	159,436
Flaxseeds	26,151	16,630	8,912	20,736	11,357	12,315	11,396	9,079
Other	111	251	30	11	41	88	282	925
Vegetable oils	53,969	84,041	17,066	42,260	44,352	28,659	13,161	18,405
Cottonseed	31,168	41,353	5,527	28,480	28,194	19,541	8,776	12,675
Soybean	9,210	29,145	9,051	10,054	10,444	2,603	1,218	1,547
Linseed	9,944	9,486	275	688	3,449	2,399	482	800
Other	3,647	4,057	2,213	3,038	2,265	4,116	2,685	3,383
Tallow 3/	49,952	41,308	33,056	44,270	37,646	31,064	26,375	25,921
Tobacco, unmanufactured	75,495	80,552	89,500	82,143	88,257	96,501	105,543	104,215
Variety meats, fresh or frozen 1/	13,360	12,080	13,030	12,258	14,241	16,351	16,327	21,087
Nuts and preparations	8,674	3,872	1,578	2,439	7,502	1,438	3,024	4,339
Tops	1,073	2,265	4,208	1,391	1,141	968	2,480	2,490
Corn byproducts, feed 5/	11	44	223	2,145	981	809	3,443	6,824
Food for relief and charity	46,678	40,479	30,121	18,206	14,803	18,192	14,558	10,164
Other	45,683	45,104	32,093	45,337	40,245	43,366	47,502	53,537
Total nonvariable-levy items	699,441	860,476	585,136	576,211	799,611	714,514	671,387	725,509
Total EC	1,101,433	1,093,665	821,583	926,011	1,098,724	1,157,051	1,150,731	1,171,411

1/ Grains, poultry, and pork were subject to variable levies beginning on July 30, 1962; rice on Sept. 1, 1964; and beef and dairy products, on Nov. 1, 1964.
2/ Lard for food is a variable-levy commodity, while lard for industrial use is bound in the General Agreement on Tariffs and Trade (GATT) at 3 percent ad valorem. U.S. lard is for food use.

Table 7.--U.S. exports to the EC: Value by commodity, calendar years 1956-71

Commodity	1964	1965	1966	1967	1968	1969	1970	1971
-- 1,000 dollars --								
Variable-levy commodities 1/:								
Feed grains	325,972	471,771	476,441	373,631	336,501	224,977	323,920	344,920
Corn	238,898	341,182	340,280	304,306	313,442	219,094	287,044	300,376
Grain sorghums	61,988	86,525	82,330	44,434	16,539	5,839	21,548	19,985
Barley	22,707	29,061	35,437	20,615	4,745	0	5,583	24,503
Oats	2,379	15,023	18,394	4,276	1,775	44	9,745	56
Rice	15,378	10,140	18,821	25,718	27,896	31,038	20,899	18,070
Rye grain	5,676	1,463	4,418	4,321	1,486	409	0	717
Wheat grain	59,228	67,674	105,990	95,058	82,989	56,141	77,421	59,083
Wheat flour	1,662	1,207	1,357	1,398	972	924	956	1,042
Beef and veal, excluding variety meats ..	1,064	1,511	647	567	530	379	419	873
Pork, excluding variety meats	8,624	377	1,334	395	172	321	146	261
Lard 2/	2,489	1,062	1,104	1,559	324	209	404	510
Dairy products	54,398	30,473	1,213	1,234	928	761	1,060	374
Poultry and eggs	31,676	30,747	23,600	18,533	14,362	12,969	13,056	10,025
Live poultry	1,059	1,380	1,497	1,735	2,205	1,800	2,165	1,611
Broilers and fryers	10,615	6,306	5,805	2,617	1,279	708	342	846
Stewing chickens	6,384	2,710	759	35	15	0	0	2
Turkeys	11,060	17,491	13,526	12,627	9,253	8,849	8,874	5,933
Other fresh poultry	669	938	303	310	188	119	4	10
Eggs	1,889	1,922	1,710	1,209	1,422	1,493	1,671	1,623
Other	18,898	9,774	7,043	6,654	8,933	11,440	15,437	11,985
Total variable-levy items	525,065	626,199	641,968	529,068	475,093	339,568	453,718	447,860
Nonvariable-levy commodities:								
Canned poultry 3/	3,992	3,325	2,352	2,263	971	172	47	291
Cotton, excluding lintners	189,145	70,258	65,890	71,848	56,471	23,675	19,451	53,134
Fruits and preparations	61,010	77,340	66,279	64,524	45,233	65,771	66,657	61,173
Fresh fruits	18,771	23,877	24,340	26,766	14,531	24,762	22,242	19,849
Citrus	16,885	20,982	21,524	24,684	14,036	23,339	21,406	18,952
Oranges and tangerines	5,475	9,945	10,213	12,867	2,685	14,246	9,934	7,616
Lemons and limes	7,955	7,750	7,802	8,045	9,599	6,739	8,586	9,169
Grapefruits	3,455	3,286	3,471	3,771	1,747	2,276	2,829	2,154
Other	---	1	38	1	5	78	57	13
Apples	1,280	1,842	2,050	1,169	18	887	161	14
Grapes	14	115	157	391	110	141	87	119
Other	592	938	609	522	367	395	588	764
Dried fruits	8,067	11,428	8,080	9,178	6,832	8,555	9,398	10,090
Raisins	1,261	1,656	1,433	1,718	1,720	1,838	1,858	2,668
Prunes	5,535	8,608	5,840	6,974	4,828	6,322	5,081	5,977
Other	1,271	1,164	807	486	284	395	2,459	1,445
Fruit juices	3,677	4,447	4,744	8,754	8,644	8,103	11,374	11,966
Orange	1,855	1,742	2,740	5,514	5,946	5,145	7,431	7,418
Grapefruit	551	1,467	772	1,719	1,472	1,616	2,156	2,314
Other	1,271	1,238	1,232	1,521	1,226	1,342	1,787	2,234
Canned fruits 4/	29,348	35,917	27,280	18,971	14,391	22,723	22,823	18,554
Peaches	11,857	14,618	11,544	6,216	3,726	8,671	9,327	7,040
Fruit cocktail	6,175	7,090	7,005	5,824	4,598	5,828	5,668	2,989
Pineapples	9,238	8,948	7,476	6,085	5,231	5,303	6,564	6,944
Other	2,078	5,261	1,254	846	836	2,921	1,264	1,581
Other fruits	1,147	1,671	1,835	855	835	1,628	820	714
Vegetables and preparations	23,676	21,160	20,004	12,536	16,338	17,432	22,027	18,676
Pulse	8,517	10,456	12,335	6,596	8,242	10,315	13,372	11,337
Dried beans	4,604	4,353	7,486	1,737	3,240	5,681	7,990	6,837
Dried peas	3,913	6,103	4,849	4,859	5,002	4,634	5,382	4,500
Fresh vegetables	159	488	518	860	1,566	1,001	1,158	1,014
Canned vegetables	9,926	7,818	4,519	2,620	2,100	1,544	1,302	680
Asparagus	8,933	7,132	3,695	1,985	1,428	692	431	117
Other	993	685	824	635	672	852	871	563
Other vegetables and preparations	5,074	2,398	2,632	2,460	4,430	4,572	6,195	5,645
Hides and skins	27,433	31,601	28,384	17,777	21,962	24,371	17,807	18,005
Cattle hides	21,195	25,130	21,540	12,022	15,885	19,958	14,719	13,122
Calf and kip skins	2,108	4,344	4,600	3,620	2,951	1,500	926	2,040
Other	4,130	2,127	2,244	2,135	3,126	2,913	2,162	2,843
Oilseeds and products	343,725	383,309	464,783	477,407	488,840	499,585	664,528	838,747
Oil cake and meal	76,637	110,736	149,872	156,558	175,054	190,180	227,986	272,006
Soybean	71,146	102,288	140,583	152,312	167,983	182,608	219,991	261,618
Other	5,491	8,448	9,289	4,246	7,071	7,572	7,995	10,388
Oilseeds	234,005	236,983	299,263	312,686	300,973	295,006	417,026	532,023
Soybeans	213,867	226,201	278,673	294,169	271,735	277,276	409,241	514,172
Flaxseeds	19,003	8,947	17,750	14,105	22,462	15,118	3,366	1,045
Other	1,135	1,835	2,840	4,412	6,776	2,612	4,419	16,806
Vegetable oils	33,083	35,590	15,648	8,163	12,813	14,399	19,516	34,718
Cottonseed	18,188	23,087	3,839	130	261	4,294	9,324	14,974
Soybean	5,296	2,055	19	71	96	242	169	140
Linseed	1,443	1,679	8,497	4,042	8,715	1,438	2,297	159
Other	8,156	8,769	3,293	3,920	3,741	8,425	7,726	19,445
Tallow 3/	34,989	37,222	34,663	25,272	19,971	14,208	33,441	33,176
Tobacco, unmanufactured	105,824	106,315	119,917	149,028	128,484	149,051	123,614	151,397
Variety meats, fresh or frozen 3/	32,280	34,371	35,026	34,371	31,475	37,254	42,465	50,927
Nuts and preparations	5,789	11,836	5,031	6,491	25,097	12,330	22,488	26,057
Hops	2,426	2,723	3,595	2,049	1,309	1,111	1,418	4,783
Corn byproducts, feed 5/	7,894	15,802	19,310	18,839	28,664	36,758	34,368	34,431
Food for relief and charity	6,354	4,656	4,554	1,388	1,182	469	529	390
Other	46,365	50,336	52,469	47,238	26,296	46,854	56,236	61,584
Total nonvariable-levy items	890,812	850,254	922,257	931,031	892,293	929,051	1,105,076	1,352,771
Total EC	1,415,877	1,476,453	1,564,225	1,460,099	1,367,386	1,268,619	1,558,794	1,800,631

3/ Although canned poultry, tallow, and variety meats are subject to variable levies, these cannot exceed the amount of import duties bound in GATT.

4/ Variable levy on sugar-added content only.

5/ Mainly corn gluten feed and meal, which are nonvariable-levy commodities; but may contain small quantities of other corn products, subject to variable levies (see "Export Highlights, March 1970").

